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# **Audit of Controls over the Audit Followup Process**

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## **FINAL AUDIT REPORT**



**ED-OIG/A19-B0002**  
**October 2001**

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Our mission is to promote the efficiency, effectiveness, and integrity of the Department's programs and operations.



U.S. Department of Education  
Office of Inspector General  
Operations Internal Audit Team  
Washington, DC

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Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

In accordance with the Freedom of Information Act (5 U.S.C § 552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

OCT 18 2001

**MEMORANDUM**

TO: Mark Carney  
Deputy Chief Financial Officer  
Office of the Chief Financial Officer

FROM: Lorraine Lewis *Lorraine Lewis*

SUBJECT: FINAL AUDIT REPORT  
Audit of Controls Over the Audit Followup Process  
Control No. ED-OIG/A19-B0002

Attached is our subject final report that covers the results of our review of the Department's audit followup process during Fiscal Years 1996 through 2000. Please provide us with your final response to each open recommendation within 60 days of the date of this report indicating what corrective actions you have taken or plan, and related milestones.

In accordance with Office of Management and Budget Circular A-50, we will keep this audit report on the Office of Inspector General list of unresolved audits until all open issues have been resolved. Any reports unresolved after 180 days from date of issuance will be shown as overdue in the OIG's Semiannual Report to Congress.

Please provide the Supervisor, Post Audit Group, Office of the Chief Financial Officer, and the Office of Inspector General with quarterly status reports on promised corrective actions until all such actions have been completed or continued followup is unnecessary.

In accordance with the Freedom of Information Act (5 U.S.C § 552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

We appreciate the cooperation given us in the review. Should you have any questions concerning this report, please call Nancy Brown, Acting Director, Operations Internal Audit Team, at (202) 863-9540.

Attachment

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## EXECUTIVE SUMMARY

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The objectives of our audit were to (1) evaluate the Department of Education's (Department) controls to ensure that agreed upon corrective actions have been taken, and (2) verify whether selected corrective actions have been implemented as stated in the Department's corrective action plans.

The Office of Management and Budget's Circular A-50, "Audit Followup," requires agencies to establish systems to assure the prompt and proper resolution and implementation of audit recommendations. Agencies are required to designate a top management official to oversee audit followup, including resolution and corrective action. The Circular specifically states that this official has personal responsibility for ensuring corrective actions are taken. The Department's designated audit followup official is its Chief Financial Officer (CFO). Within the Office of the Chief Financial Officer, Post Audit Group staff are responsible for assisting the CFO in the audit followup process.

Overall, we found that improvements were needed in the Department's audit followup system and that some corrective actions were not completed as reported. Specifically, our audit revealed that:

- Corrective actions were not always implemented, were not fully implemented, or were implemented after the reported completion date;
- Action Officials did not certify that all corrective actions were implemented; and
- Program offices did not have complete records of corrective actions taken.

As a result, the Department does not have assurance that audit recommendations are implemented and operations are improved. Also, reporting actions as completed that are not actually implemented, are not fully implemented, or are implemented after the reported completion date, compromises the integrity of the Department's audit followup process and negatively impacts the Department's credibility. To correct these weaknesses, we recommend that the Department's Chief Financial Officer:

- Ensure that corrective actions have been taken in compliance with OMB Circular A-50 requirements.
- Re-open the closed recommendations noted in this audit for which corrective actions were not implemented, or were not fully implemented. Ensure corrective action plans accurately report actual completion dates and corrective actions taken.
- Reemphasize and adhere to the requirement for the Action Official certification, or modify the procedures to specify that responsible managers in the program area may also provide certification.
- Establish a periodic review to ensure that program offices maintain sufficient documentation of corrective actions taken.

The Department generally concurred with our audit results and was responsive to our recommendations. In its general comments to a draft of the audit report, the Department stated that the audit followup process has been an area of increased attention over the last several years. The Department stated that it was "pleased overall that this process is providing a reasonable assurance that audits are taken seriously and appropriately acted upon by Department management. This is evidenced, in part, by the fact that [OIG's] selection of 16 audits and a sample of 35 closed recommendations disclosed that only five recommendations were questioned as not being implemented, fully implemented or implemented after the reported completion date."

The Department further agreed that an important part of the Department's audit followup process is to ultimately ensure that corrective actions are taken in compliance with OMB Circular A-50. The Department stated that the Office of the Chief Financial Officer will provide increased guidance and record keeping and will explore the feasibility of conducting periodic reviews to help ensure that sufficient records and documentation are maintained by program offices to support actions taken to address audit recommendations.

We do not completely agree with the Department's assertion that our audit results suggest the current system provides reasonable assurance that audits are appropriately acted upon by Department management. Our results showed a need for improvement in the process and additional monitoring to ensure that audit recommendations are addressed. We found that corrective actions for 5 of 35 recommendations -- 14 percent of the recommendations reviewed - were not implemented as reported by the Department. In addition to compromising the integrity of the audit followup system, these results negatively impact the Department's credibility.

The Department agreed with our findings and recommendations regarding Action Official certifications and documentation of corrective actions taken. The full text of the Department's response is included as Attachment 2 to this audit report.

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## AUDIT RESULTS

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Overall, we found that improvements were needed in the Department of Education's (Department) audit followup system and that some corrective actions were not always completed as reported. Our audit revealed that (1) corrective actions were not implemented, were not fully implemented, or were implemented after the reported completion date, (2) Action Officials did not certify that all corrective actions were implemented, and (3) program offices did not have complete records of corrective actions taken. As a result, the Department does not have assurance that audit recommendations are implemented and operations are improved. Also, reporting actions as completed that are not actually implemented, are not fully implemented, or are implemented after the reported completion date, compromises the integrity of the Department's audit followup process and negatively impacts the Department's credibility.

In the Department's response to a draft of this audit report, it generally concurred with our findings and provided comments and planned actions to the recommendations made. A summary of the response follows each finding. The full text of the response is included as Attachment 2 to this audit report.

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### **Finding No. 1 – Corrective Actions Were Not Always Completed as Reported.**

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Department officials did not implement corrective actions as reported in 3 of 16 audits reviewed (5 of 35 recommendations reviewed). We found that some corrective actions were not implemented, were not implemented fully, or were implemented after the reported completion date.

- ***Review of the Grants Administration and Payment System (GAPS) Configuration Management Process, May 7, 1999 (Action Official: Chief Financial Officer)***

Recommendation 7 -- In this report, the Office of Inspector General (OIG) recommended that the Office of the Chief Financial Officer (OCFO), "Institute procedures to assure that system/user documentation is updated to reflect changes at major milestones." In the corrective action plan, OCFO officials stated that "GAPS manuals are updated annually per the maintenance contract...." This action was reported as completed September 29, 1999. We found that this corrective action was not implemented.

OCFO officials informed us that the GAPS maintenance contract does not provide for annual updates of the manuals. Of the 10 manuals that had been developed at the time of the audit,

only 2 have been updated. The most recent versions of the other eight manuals were from 1997 and 1998. Department staff were in the process of updating all of the manuals as our fieldwork concluded. However, since the maintenance contract does not provide for annual updates, no procedures have been instituted as recommended to assure the manuals are updated to reflect changes at major milestones.

- ***The U.S. Department of Education, Audited Financial Statements, Year Ended September 30, 1999, Report on Internal Control, February 28, 2000 (Action Official: Chief Financial Officer)***

Issue 2/Recommendation 1 -- Ernst & Young, LLP, (E&Y) conducted the fiscal year 1999 financial statement audit under contract with OIG. E&Y recommended that, "The Department should review its policies and procedures on a regular basis to ensure they remain current and are achieving management's objectives." As part of the corrective action plan for this recommendation, OCFO officials stated they would, "Develop a web-based application to record/maintain and provide for the update and periodic review of policies and procedures for reconciliations." This action was reported as completed January 31, 2000. We found that this corrective action was not fully implemented.

The Department had established a web-based application for policies and procedures, but that application did not include a process to facilitate the regular review of the policies and procedures. At the time of our fieldwork, the Department stated it was revising the application and such a process for periodic review was planned. In a written response to our findings presented at the exit conference, Department officials stated "we do not believe that such an automated web-based process is necessary to effectively address the finding and implement/close the recommendation." However, the agreed-upon corrective action plan provided by the Department stated that the application would provide for the periodic review of policies and procedures. The application did not include this capability, and Department staff did not disclose that this portion of the corrective action was not taken when they reported the action as completed.

Issue 4/Recommendation 4 -- E&Y made recommendations to update the U.S. Department of Education's Network (EDNET) security policies and procedures. In the corrective action plan, the Department stated its plans to "Update Department security policies and procedures to ensure that changing system security needs are reflected, all access authorizations are documented, and that access rights are revalidated periodically for EDNET." This action was reported as completed October 19, 2000. We found that this corrective action was not implemented.

A separate EDNET security policy does not currently exist. Department officials stated that EDNET security is included in the overall Department security policy. We found that this policy was issued in draft form on October 19, 2000. The policy remained in draft form at the end of our fieldwork. The draft policy did not address user access revalidation as specified in the corrective action. We also found that EDNET user access was not being



periodically revalidated. OCIO staff reported they were taking actions to address these issues.

Issue 7/Recommendation 4 -- E&Y recommended updates to policies and procedures for accounts payable, accrued liabilities and expenditures. As part of the corrective action plan for this recommendation, the Department stated that it would "Conduct staff training on transaction preparation and approval." This action was reported as completed August 31, 2000. We found that this corrective action was implemented after the reported completion date.

OCFO staff could not provide any documentation to support that this training had taken place. However, several managers and OCFO staff stated they attended the training. OCFO staff provided an e-mail message dated September 11, 2000, that announced training to be conducted on September 13, 2000 -- two weeks after the corrective action was reported as completed.

- ***Audit of the U.S. Department of Education's Closed School Process, June 30, 1999***  
**(Action Official: Chief Operating Officer, Student Financial Assistance)**

Recommendation 1 -- OIG recommended that Student Financial Assistance (SFA) "Determine all closed schools that failed to submit the close out audit report and establish a receivable for these schools." The corrective action plan stated that:

Case Management Teams (CMTs) are sending letters to schools to inform them of the close out audit requirements after notification of closure or planned closure. Schools that do not submit a letter of engagement within 45 days are issued a Final Audit Determination letter, which assesses a liability for the amount of Title IV funds not audited. For schools that closed after 7/1/96, the case teams are verifying that all schools listed in the closed school database have either submitted close out audits or have receivables established.

These actions were reported as completed April 30, 2000. We found that this corrective action was not fully implemented.

To test implementation of these new procedures, we reviewed documentation for 54 schools that closed in Fiscal Year 2000. We did note that letters were sent out to the schools notifying them of the requirements. However, we found that receivables totaling over \$1.7 million had not been established for eight schools that did not submit the required close out audits. SFA staff took prompt actions to establish the receivables for the schools we identified and stated they would establish a manual reporting system to ensure that receivables are established timely.

In a written response to our findings presented at the exit conference, SFA staff stated that "SFA believes that this recommendation has been fully implemented, but acknowledges that the control to ensure the established procedures are timely followed in all cases has not

been." We agree that new procedures were established based on the prior audit. However, since these procedures were not followed in nearly 15 percent of the schools reviewed, we concluded that this corrective action was not fully implemented.

### **Requirements for Audit Followup**

Office of Management and Budget (OMB) Circular A-50 (Circular), revised September 29, 1982, provides the requirements for audit followup systems. The background section of the Circular states that one of the principal objectives of the revision was, "To emphasize the importance of monitoring the implementation of resolved audit recommendations in order to assure that promised corrective action is actually taken."

Under section 7, "Responsibilities," the Circular states:

- b. Agency management officials are responsible for receiving and analyzing audit reports, providing timely responses to the audit organization, and taking corrective actions where appropriate....
- c. The audit followup official has personal responsibility for ensuring that (1) systems of audit followup, resolution, and corrective action are documented and in place...(4) corrective actions are actually taken....

The Department also established policies and procedures for the audit followup process. Administrative Communication System (ACS) Directive A:MIS:1-103, entitled "Audit Resolution System," and the related ACS Handbook by the same name, both dated December 18, 1987, document these policies and procedures. A *Post Audit User Guide* has been drafted to reflect more current policies and procedures. At the time our audit began, the most current draft of this guide was dated May 25, 2000. According to OCFO's Post Audit Group (PAG) staff, this version reflected the practices followed during our audit period. We also noted that the guide was posted on the Department's Intranet.

The *Post Audit User Guide*, Section V, Chapter 1, part F, states that the Chief Financial Officer is the designated Audit Followup Official (AFUO) for the Department of Education. The guide also states: "The AFUO is responsible for...[e]nsuring that a system of cooperative audit resolution and follow-up is documented and in place, including follow-up to ensure corrective actions are taken."

The guide further states in part G of the same chapter, that the PAG within the OCFO, provides support to the AFUO. "PAG is responsible for...tracking, evaluating and documenting the completion of corrective actions by ED officials in response to GAO audits and ED's internal audits."

## **PAG Staff Delegated Responsibilities to Program Offices**

We found that PAG staff had delegated responsibility for ensuring that corrective actions were taken to the individual program offices that had been audited. PAG staff stated that they did not have the staffing resources nor expertise required to ensure that corrective actions had been taken. PAG staff also stated that their role is to "partner" with the components and noted they could not be partners and also be viewed as independent in ensuring corrective actions were taken. We also found PAG staff did not ensure Action Officials were certifying that all corrective actions were taken -- a control implemented by PAG to compensate for the fact that they were not validating corrective actions themselves (see Finding No. 2).

In a written response to our findings presented at the exit conference, PAG staff stated that "The issue of the OCFO validating corrective actions still warrants further review on its overall merits. We continue to believe strongly that the overall responsibility for taking/documenting corrective actions on audit reports is the designated Action Official . . . Given the resource implications and the ability of the Department to actually conduct such validation processes in an effective, timely and efficient manner, the value of OIG's recommendation needs further management review."

OMB is specific in the role it assigns to the audit followup official. The Department's own policies designate the Chief Financial Officer as the audit followup official. OCFO staff should not delegate this role and the responsibilities that go with it. Many of the audit findings do not require expertise to determine if corrective actions are taken. If the program offices maintain adequate documentation, OCFO staff should be able to determine whether corrective actions were taken. For issues that are more technical in nature, OCFO could call on consultants or OIG audit staff for assistance in ensuring corrective actions were taken. Without independent review by PAG staff, there is less assurance that corrective actions are taken and Government operations are improved.

In its written comments, the Department also stated: "It is our view that the 'not implemented/not fully implemented/not timely implemented' items noted in the OIG report, were not significant or material, and did not have or cause to have a negative effect on ED's operations/statements." We disagree. The objective of our audit was to assess controls to ensure that agreed upon corrective actions were taken. We found weaknesses in these controls.

Reporting actions as completed that are not actually implemented, are not fully implemented, or are implemented after the reported completion date compromises the integrity of the Department's audit followup process and negatively impacts the Department's credibility.

## **Recommendations**

We recommend that the Department's Chief Financial Officer:

- 1.1 Ensure that corrective actions have been taken in compliance with OMB Circular A-50 requirements.

- 1.2 Re-open the closed recommendations noted in this audit for which corrective actions were not implemented, or were not fully implemented. Ensure corrective action plans accurately report actual completion dates and corrective actions taken.

### **Department of Education Comments**

The Department stated that it generally concurred with this finding and offered the following additional comments:

Recommendation 1.1 -- The Department stated that it has in place a system to ensure that corrective actions have been taken in compliance with OMB Circular A-50 requirements. The Department stated that while it does not conduct a process to validate that Action Officials took the corrective actions required, accountability at the program office level, coupled with OIG review and concurrence, provides a reasonable assurance that responsibilities under the Circular are being met.

Recommendation 1.2 -- The Department stated that it partially concurred with this recommendation. The Department stated that four of the five recommendations should remain closed, and agreed to reopen the fifth recommendation. The Department reported that corrective actions for four recommendations, although not fully implemented or accurately reflected at the time of the OIG review, have since been remedied so the recommendations should remain closed. The Department did not address updating the corrective action plans as recommended.

### **Office of Inspector General Comments**

Recommendation 1.1 -- We do not completely agree with the Department's assertion that our audit results suggest the current system provides reasonable assurance that audits are taken seriously and appropriately acted upon by Department management. Further, OIG's limited involvement in the audit follow up process does not provide assurance that the Department has met its responsibilities under OMB Circular A-50. Our results show a need for improvement in the process and additional monitoring to ensure that audit recommendations are addressed. We found corrective actions for 5 of 35 recommendations reviewed -- over 14 percent -- were not implemented as reported by the Department. In addition to compromising the integrity of the audit followup system, these results negatively impact the Department's credibility.

Recommendation 1.2 -- The Department agreed to reopen one recommendation, but stated that four of the recommendations should remain closed. We agree that, as a result of our review, the corrective actions for four recommendations have now been taken. The Department's response did not address our recommendation to update corrective action plans. We continue to recommend that the plans be updated to reflect the actual actions taken and completion dates.

## **Change from the Draft Audit Report**

Our draft audit report originally included the following recommendation:

- 1.3 Determine whether the Department's policies need to be revisited with regard to who should be designated as the audit followup official and given the responsibility for ensuring corrective actions are actually taken. Update policies as needed based on this determination.

In its response to a draft of the audit report, the Department stated that they did not concur that the policies needed to be revisited. The Department's evaluation of its response satisfies the intent of our recommendation. This recommendation was removed from the final audit report.

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## **Finding No. 2 – Action Officials Did Not Certify that All Corrective Actions Were Implemented.**

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Department procedures require Action Officials to certify that all corrective actions were implemented prior to closing an audit. [Action Officials are designated by OIG at the time audit reports are issued.] PAG staff established this control to compensate for the fact that they do not ensure corrective actions are taken themselves. We found that Action Officials had not provided these certifications for 27 of the 32 closed audits in our universe.

The Department's ACS Directive A:MIS:1-103 handbook, Chapter 1, Section E-1, paragraphs a, i, and j, states the Action Official is responsible for:

- a. Determining the action to be taken and the financial adjustments to be made to resolve audit deficiencies within his or her respective program areas of responsibility.
- i. Monitoring auditee actions in order to ensure implementation of recommendations sustained during the audit resolution process.
- j. Providing periodic reports to the AFUO advising as to the status of corrective actions to be taken by the Department in response to the recommendations in GAO reports and ED-OIG internal and national audit reports and management improvement reports.

The Department's *Post-Audit User Guide*, Section IV, Chapter 1, part G-3, requires a certification memorandum signed by the Action Official. This memorandum should state:

- The information contained therein is accurate and current;
- All corrective actions have been implemented, if appropriate; and
- The Action Official is requesting closure of the audit report, if appropriate.

We found that PAG staff did not ensure that Action Officials certified the completion of all corrective actions prior to closing the audits. In most cases, PAG staff closed audits based on memoranda and e-mail messages from audit liaison staff in the program offices. These staff did not have the authority to implement corrective actions, nor were they accountable for operations in the program area. [Audit liaison staff are responsible for coordinating the overall resolution of the audits, including acting as a central control point for audit reports, audit resolution data and audit clearance documents.]

Without the Action Official certification, the Department lacks assurance that corrective actions were actually implemented. Since PAG staff did not otherwise verify that corrective actions were completed, the Action Official certification was the only assurance provided in the process. Accepting a certification from audit liaison staff does not provide the same level of assurance as a certification from the Action Official.

While Department procedures require the Action Official to certify that corrective actions have been taken, OCFO management officials stated that certification by a manager in the area reviewed should also be considered appropriate, as that manager is directly responsible for operations in the audit area. We agree that a responsible manager's certification would provide reasonable assurance; however, current Department guidelines require certification by the Action Official.

At the time of our review, the Department was developing an automated corrective action plan process. We found that this process did not include a certification by any responsible official, thereby weakening controls over accountability.

## **Recommendations**

We recommend that the Department's Chief Financial Officer:

- 2.1 Adhere to the requirement for the Action Official certification, or modify the applicable Directive and user guide to specify that responsible managers in the program area may also provide certification.
- 2.2 Establish a control to ensure the responsible official's certification is received prior to closing an audit.

## **Department of Education Comments**

In its response to a draft of this audit report, the Department stated that it concurred with this finding and both of these recommendations. The Department also stated that it is working with its contractor to make enhancements to the current automated tracking system to include the certification process. Until these enhancements are fully implemented, the Department stated that it would continue to require a written Certification Memorandum, signed by the Action Official, to close audit reports. The Department further stated that it would modify the applicable directive and user guide to specify those responsible managers who may also provide certification.

## **Office of Inspector General Comments**

The Department's response effectively addresses our findings and recommendations in this area.

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### **Finding No. 3 – Program Offices Did Not Have Complete Records of Corrective Actions Taken.**

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Program offices did not have complete records of corrective actions taken to address audit recommendations. We received complete documentation of corrective actions taken in response to our initial requests for only three of the audits reviewed. For the other 13 audits, program office staff had difficulty in locating documentation to support corrective actions taken. For these 13 audits, we held an average of 2 discussions and requested data an average of 5 times, often from several different sources, to determine whether corrective actions were implemented. Department staff could not locate documentation to support some corrective actions taken (see Finding No. 1).

OMB Circular A-50 and Department policy provide the following guidelines for maintaining records of corrective actions taken:

- OMB Circular A-50, section 5, states that audit followup systems, "...shall provide for a complete record of action taken on both monetary and non-monetary findings and recommendations."
- The Department's ACS Directive A:MIS:1-103 handbook, Chapter 1, Section E-1e, states the Action Official is responsible for, "Maintaining formal documented systems of audit follow-up to ensure that: (1) audit reports are promptly resolved; (2) audit recommendations are implemented and appropriate documentation is available...."
- The Department's *Post-Audit User Guide*, Section IV, Chapter 1, part G, states that "Each Action Official must maintain documentation to support implementation of each corrective action. The documentation must be specifically identifiable to a corrective action to withstand any post-audit closure review by OIG or [the General Accounting Office]."

PAG staff had delegated responsibility for record keeping to the individual program offices, but the program offices generally had not developed adequate systems for maintaining documentation. One office had established files for each audit, but those files contained limited documentation of the actions taken, such as corrective action plans and some e-mail correspondence. Both PAG and program office staff stated that records documenting all actions taken on an audit would be very large and difficult to manage.

In its written comments to our findings presented at the exit conference, the Department stated, "We agree that it is important for Action Officials to ensure that actions they plan and actually take to address recommendations should be adequately documented in their files...."

Without appropriate documentation, there is less assurance that corrective actions are actually implemented. Management control is reduced by not having a system in place for maintaining documentation. Accountability is weakened in that program offices can not clearly document



what actions were taken to address audit recommendations. The integrity of the Department's audit followup process is compromised and the Department's credibility is impacted adversely.

### **Recommendation**

We recommend that the Department's Chief Financial Officer:

3. Adhere to current requirements and issue additional guidelines on documentation that should be maintained to support corrective actions taken.

### **Department of Education Comments**

In its response to a draft of this audit report, the Department stated that it concurred with this finding and recommendation, and it would issue additional guidelines to Action Officials on maintaining appropriate documentation to support completed corrective actions. The Department further stated that it would explore the feasibility of performing periodic reviews to ensure sufficient records are maintained.

### **Office of Inspector General Comments**

The Department's response effectively addresses our findings and recommendation in this area.

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## BACKGROUND

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OMB Circular A-50 provides the requirements for establishing systems to assure the prompt and proper resolution and implementation of audit recommendations. The policy provided in the Circular is as follows:

Audit followup is an integral part of good management, and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations. These systems shall provide for a complete record of action taken on both monetary and non-monetary findings and recommendations.

The Circular requires that each agency designate a top management official to oversee audit followup, including resolution and corrective action. The Department's designated audit followup official is the Chief Financial Officer (CFO). Within the OCFO, PAG staff are responsible for assisting the CFO in the audit followup process.

When an internal OIG audit report is issued, management officials develop a corrective action plan that details proposed actions to be taken to address each audit recommendation. Dates by which the actions will be completed are also provided in the plan. OIG officials review the corrective action plan to determine whether the proposed actions will satisfactorily address the issues noted in the audit report. If not, OIG and Department management officials discuss the issues and come to an agreement on the actions that should be taken. Once the proposed corrective actions are agreed upon, the audit is considered "resolved."

Periodically, management updates and sends corrective actions plans with completed actions to OIG. OIG staff review the completed corrective actions listed in the corrective action plan and, if they have no information to the contrary, accept that the completed action, if taken as stated, addresses the audit issues as agreed upon during the resolution process. The recommendations are then considered "closed." OIG does not validate that corrective actions were taken as asserted by management. OMB Circular A-50 states that the audit followup official has the responsibility for ensuring that corrective actions are taken.

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## OBJECTIVES, SCOPE AND METHODOLOGY

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The objectives of the audit were to (1) evaluate the Department's controls to ensure that agreed upon corrective actions have been taken, and (2) verify whether selected corrective actions have been implemented as stated in the Department's corrective action plans.

To accomplish our objectives, we obtained an understanding of the controls in place at the Department over the audit followup process. We reviewed OMB Circular A-50, Departmental policies and procedures, and GAO *Standards for Internal Control in the Federal Government*. We conducted interviews with officials in the OCFO PAG, as well as in the program offices involved in the implementation of the selected corrective actions.

We did not rely on computer-processed data in this audit. At the time of our review, PAG was implementing an automated corrective action plan system, but for the scope of our audit, information on internal audits was not automated. We reviewed PAG files to determine the universe of internal audits with at least one closed recommendation. We reconciled PAG's files with OIG's Semiannual Reports to Congress to ensure that PAG's files included all internal audits. In total, we identified 49 audits with at least one closed recommendation that were issued during the period October 1, 1995, through September 30, 2000, excluding Year 2000 compliance audits.

From the universe of 49 audits, we selected a sample of 16 audits to review. The audits were selected judgmentally to include at least one audit from each program office that was audited. From these 16 audits, we judgmentally selected a total of 35 closed recommendations to review. A complete list of the audits and recommendations selected is included as Attachment 1 to this report.

To evaluate implementation of agreed upon corrective actions, we conducted interviews with officials in the program offices responsible for implementing the corrective actions. We also reviewed available documentation and conducted limited testing as appropriate to determine whether the corrective actions were taken.

We reviewed the Department's Government Performance and Results Act report, *1999 Performance Reports and 2001 Plans*, to determine whether the Department had established any performance indicators applicable to the audit followup process. We found that one indicator had been established relating to the financial statement audits. Indicator 4.6a states that, "Auditors will issue an unqualified (clean) opinion of the Department-wide financial statements every year." This indicator, however, focuses on improvements needed in the Department's financial management system, rather than on the effectiveness of the process for ensuring that corrective actions from the financial audits are implemented. There were no indicators established for other internal audits, or to evaluate the controls to ensure that agreed upon corrective actions have been implemented.

Objective 1 in the OIG section of the report relates to use of OIG products and services to improve Department programs and services. Indicator 1.1 under this section relates to implementation of audit recommendations -- "The number and percentage of significant recommendations accepted and implemented will increase." The OIG indicator relies on the Department's attestations that recommendations have been implemented. OIG does not validate these attestations as that is the responsibility of the audit followup official.

We performed our fieldwork at applicable Department of Education offices in Washington, DC, during the period December 4, 2000, through August 6, 2001. An exit conference was held with Department officials on July 27, 2001. Our audit was performed in accordance with Government Auditing Standards appropriate to the scope of the review described above.

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## STATEMENT ON MANAGEMENT CONTROLS

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As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to the Department's administration of the audit followup process. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives.

For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Implementation of corrective actions;
- Certification by Action Officials; and
- Documentation of corrective actions taken.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the management controls. However, our assessment disclosed significant management control weaknesses that adversely affected the Department's ability to administer the audit followup process. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

## ATTACHMENT 1 -- Audits and Recommendations Reviewed

Audit Control Number	Audit Title	Date Issued	Recommendations Reviewed
04-60152	Review of Monitoring Controls Used to Ensure Fulfillment of Title VII Bilingual Education Grant Program Objectives	June 1997	#2
11-90004	Review of the Grants Administration and Payment System (GAPS) Configuration Management Process	May 1999	#4, #7
17-90019	The U.S. Department of Education, Audited Financial Statements, Year Ended September 30, 1999, Report on Internal Control	February 2000	Issue 2/Rec #1 & 3 Issue 4/Rec #4 Issue 6/Rec #1 Issue 7/Rec #4
05-50200	Review of Office for Civil Rights -- Complaint Evaluation and Use of Resources	November 1995	#8, #13, #14
04-70001	State and Local Education Agencies Need More Technical Assistance to Take Full Advantage of the Flexibility Provisions of Title XIV of the Improving America's School Act	August 1997	#3
04-60001	Process Enhancements in the HEA, Title III, Institutional Aid Program Would Increase Program Efficiency, Despite Limited Resources	March 1996	#2
03-50201	Coordination and Collaboration Within OSERS to Better Serve Customers and Manage Programs	March 1997	#7, #8
17-70007	Moving Towards a Results-Oriented Organization: A Report on the Status of ED's Implementation of the Results Act	September 1998	#5, #6
05-80011	Institutional Participation and Oversight Service has Opportunities to Improve the Recertification Process	August 1998	#1
06-60004	Financial Aid Administrators' Use of Professional Judgment	July 1997	#3
05-70004	Strategic Planning and Performance Measurement for Guarantor and Lender Oversight Activities Can Help Foster Achievement of an Efficient and Effective Federal Family Education Loan Program	November 1997	#2
07-70002	Income Contingent Repayment -- Cost Attribution and Borrower Studies Could Assist to Meet the Objectives of Federal Financial Reporting and Program Management	June 1998	#3
06-80001	Improving the Process for Forgiving Student Loans	June 1999	#5
03-70010	Audit of the U.S. Department of Education's Closed School Process	June 1999	#1, #4
04-70016	Review of the Department's Oversight of Schools Participating in the William D. Ford Federal Direct Loan Program	September 1998	#1.1, #2.4, #2.6, #2.10, #2.11
11-80004	Review of the Department's Acquisition Process for Office of Student Financial Assistance Programs (OSFAP) Information Systems	May 1999	#1.1, #2.1, #2.5, #5.1, #5.3, #5.4



## UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

September 27, 2001

Michele Weaver-Dugan  
Director, Operations Internal Audit Team  
U.S. Department of Education  
Office of Inspector General  
400 Maryland Avenue, SW  
Washington, DC 20202-1600

Dear Ms. Dugan:

We appreciate the opportunity to comment on the subject draft report entitled: *Audit of Controls Over the Audit Follow-up Process*, Audit Control Number, ED-OIG/A19-B0002, transmitted by the Inspector General on September 13, 2001. The report provides the Department with additional insight and recommendations to improve the Audit Follow-up Process, which has been an area of increased attention over the last several years. The OCFO has also made steady improvements in the Audit Follow-up area, including a substantial investment to automate the corrective action process and spur momentum to address audits at all levels of the Department. While the OIG's report addresses areas where the Department needs to make improvements, or consider additional improvements to be made, we are pleased overall that this process is providing a reasonable assurance that audits are taken seriously and appropriately acted upon by Department management. This is evidenced, in part, by the fact that your selection of 16 audits and a sample of 35 closed recommendations disclosed that only five recommendations were questioned as not being implemented, fully implemented or implemented after the reported completion date. Further, as discussed in the Attachment, we believe four of these five recommendations should remain closed. For the one recommendation that we plan to reopen, future action will be taken to bring it to closure as soon as possible.

We also fully support the OIG's recommendations to ensure that program offices maintain sufficient documentation of completed corrective actions and adhere to the requirement that the Action Official (AO) or a delegated designee provide a written certification to support the closure of an audit report. As discussed in the Attachment, the OCFO will take additional steps to revise our policies, procedures and guidelines and take actions to promote improvements in the area of general record keeping by program offices.

We also agree with the OIG that the OCFO needs to reinforce the existing requirement to ensure that AOs provide "certification" of completed corrective actions. While we recognize that the Audit Follow-up Process is not perfect and additional actions are warranted, we do not see a need to change the current organizational placement of the CFO as the Audit Follow-up Official (AFUO). Although we support the OIG's recommendations for valid improvements, we do not agree with the assertion that the OCFO has somehow delegated its responsibilities to the Department's program offices for ensuring corrective actions. The

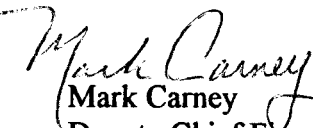
Audit Follow-up Process has been historically structured within Department policy to appropriately place responsibilities upon the program office AOs to ensure that corrective action are documented and completed.

We further agree that an important part of the Department's Audit Follow-up Process is to ultimately ensure that corrective actions are taken in compliance with OMB Circular A-50. The OIG has emphasized that without an independent review by OCFO staff, there is less assurance that corrective actions are taken and government operations are improved. In this regard, the OCFO will provide increased guidance and record keeping and will explore the feasibility of conducting periodic reviews to help ensure that sufficient records and documentation are maintained by program offices to support actions taken to address audit recommendations. We also recognize that the OIG plays an important role in conducting periodic evaluations of controls over Audit Follow-up and the validity of whether completed corrective actions have actually been implemented as stated in the Department's corrective action plans. Promoting the highest level of integrity of the Audit Follow-up Process will involve a shared responsibility between the OCFO and the OIG. This is particularly important given the resource commitments and expertise that would be needed to conduct a more comprehensive approach to reviewing corrective actions. Further, based upon the findings cited in the OIG's report, we believe that the actions we have agreed to take and address in a future corrective action plan provide a responsive and balanced effort to address the recommendations provided.

We thank the OIG for a professional approach to your review and for the courtesy extended to our managers and staff at each stage of the field work and findings development.

We have provided additional comments on each finding and recommendation in the Attachment.

Sincerely,

  
Mark Carney  
Deputy Chief Financial Officer

cc: Phil Maestri, OCFO  
Craig Luigart, OCIO  
Linda Paulson, SFA  
Terry Bowie, OCFO  
Danny Harris, OCFO  
Charles Miller, OCFO

Attachment



## **Attachment**

### **Audit of Controls Over the Audit Follow-up Process Control No. ED-OIG/A19-B0002**

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#### **Finding No. 1 -- Corrective Actions Were Not Always Completed as Reported**

Response: We generally concur with this finding.

#### **Recommendations**

##### **1.1 Ensure that corrective actions have been taken in compliance with OMB Circular A-50 requirements.**

Response: We concur with this recommendation and have in place a system to ensure such. It is the CFO's responsibility as the Audit Follow-up Official (AFUO) to comply with OMB Circular A-50 (the Circular). The Circular states, "The AFUO is responsible for ensuring that a system of cooperative audit resolution and follow-up is documented and in place, including follow-up to ensure corrective actions are taken." The Circular does not prescribe the manner for accomplishing this task. The OCFO has structured the Department's Audit Follow-up Process to place direct responsibility upon the Action Official (AO) for taking appropriate corrective action in addressing audit recommendations. This has been a clear responsibility and supports the Department's policies and procedures that the AO is responsible and accountable for assuring that corrective actions are planned and implemented, accurate, complete and fully documented in the program office files and records. The OCFO provides policies and guidance, tracking and reporting in meeting responsibilities under the Circular. However, it has always been the Department's position that the AO is the primary official responsible for addressing audit findings and recommendations assigned to the program office. Thus, the OCFO relies upon the AO to document actions and communicate in writing when audit reports are closed. While the OCFO does not conduct a process to "validate" if, in fact, AOs took the corrective actions required, accountability at the program office level coupled with OIG review and concurrence, provides a reasonable assurance that responsibilities under the Circular are being met.

##### **1.2 Re-open the closed recommendations noted in this audit for which corrective actions were not implemented, or were not fully implemented. Ensure corrective action plans accurately report completion dates.**

Response: We partially concur with this recommendation. In our opinion, four of the five recommendations should remain closed. The basis for this opinion is supported below. The OCFO plans to take action to re-open one of the five recommendations addressed in the draft report. We offer the following comments on each of the five recommendations:

- **Review of the Grants Administration and Payment System (GAPS) Configuration Management Process, May 7, 1999 (Action Official: Chief Financial officer)**

Recommendation 7 -- The OIG recommended that the OCFO, "Institute procedures to assure that system/user documentation is updated to reflect changes at major milestones." In the corrective action plan, OCFO stated that "GAPS manuals are updated annually per the maintenance contract..." This action was reported as completed September 29, 1999. The auditors reported that this corrective action was not implemented. Although the action was not fully implemented at the time OIG performed the audit or at the time the action was reportedly completed, it has since been completed. All GAPS manuals (user documentation) have been updated and can be accessed, searched and reviewed via an attachment to the *OCFO Procedures that Work* Intranet site. The manuals are used for training purposes; instructors follow official procedures mandating the update of training materials. Instructors also review release notes and those notes resulting in system modifications are used to update the user documentation. Since action has been taken, we do not see a need to reopen this recommendation.

- **The U. S. Department of Education, Audited Financial Statements, Year Ended September 30, 1999, Report on Internal Control, February 28, 2000 (Action Official: Chief Financial Officer)**

Issue 2/Recommendation 1 -- When Ernest Young, LLP (E&Y) conducted the fiscal year 1999 Financial Statement Audit, it recommended that, "The Department should review its policies and procedures on a regular basis to ensure they remain current and are achieving management's objectives." As part of the corrective action plan for this recommendation, OCFO stated it would, "Develop a web-based application to record/maintain and provide for the update and periodic review of policies and procedures for reconciliations." This action was reported as completed January 31, 2000. The OIG reported that this corrective action was not fully implemented because there was no "system to facilitate the regular review of the policies and procedures." However, the database administrator for *OCFO Procedures That Work* periodically updates the procedures in the database. Within the past week, the database administrator has archived more than 20 official procedures and replaced them with updated versions. A report is available from the *OCFO Procedures that Work* database that shows the date each procedure was last updated. Since sufficient action has been taken, we do not see a need to reopen this recommendation.

Issue 4/Recommendation 4 -- E&Y made recommendations to update the U.S. Department of Education's Network (EDNET) Security Policies and Procedures. In the corrective action plan, the Department stated it plans to "Update Department security policies and procedures to ensure that changing system security needs are reflected, all access authorizations are documented, and that access rights are revalidated periodically for EDNET." This action was reported as completed October 19, 2000. The OIG found that this corrective action was not implemented. The Office of the Chief Information Officer (OCIO), in commenting on this recommendation, stated that it was taking action to address this recommendation. However, since action to fully address this recommendation has not yet been confirmed by the OCIO, we agree with the OIG to reopen it.

Issue 7/Recommendation 4 -- E&Y recommended updates to policies and procedures for accounts payable, accrued liabilities and expenditures. As part of the corrective action

plan for this recommendation, the Department stated that it would "Conduct staff training on transaction preparation and approval." This action was reported as completed August 31, 2000. The OIG stated that this corrective action was implemented after the reported completion date. However, as stated in the exit conference and our response to the OIG's finding point sheets, training on transaction preparation and approval "took place as scheduled." We recognize that documentation was not available to support the date of the initial training session, but since the action planned did occur based on staff statements, we do not see a need to reopen this recommendation.

- **Audit of the U.S. Department of Education's Closed Process, June 30, 1999 (Action Official: Chief Operating Officer, Student Financial Assistance)**

Recommendation 1 -- OIG recommended that Student Financial Assistance (SFA) "determine all closed schools that failed to submit the close out audit report and establish a receivable for these schools." The corrective action plan stated that "Case Management Teams are sending letters to inform closed schools of the close out audit requirements after notification of closure or planned closure. Schools that do not submit a letter of engagement within 45 days are issued a Final Audit Determination letter, which assesses a liability for the amount of Title IV funds not audited. For schools that closed after 7/1/96, the case teams are verifying that all schools listed in the closed school database have either submitted close out audits or have receivables established." In the draft report the OIG stated, "We agree that new procedures were established based on the prior audit. However, since these procedures were not followed in nearly 15 percent of the schools reviewed, we found that this corrective action was not fully implemented." However, on September 21, 2001, in commenting on the OIG's draft report, SFA provided the following: "As SFA stated in their response to this finding following the exit conference, they believe that they have fully implemented this recommendation. It is their belief that they took prompt action to establish the receivables for the schools the OIG identified, and have created a new reporting system to ensure that receivables are established in a timely manner. Under the new procedures for processing closed school audits, the Document Receipt and Control Center (DRCC) will monitor the receipt of the engagement letter and subsequent receipt of the close out audit report. If the audit is not received by the due date, the DRCC will generate a monthly report to the Case Management Team (CMT) and their directors. The directors will monitor these reports to ensure that the CMTs are performing the required follow-up activities. These procedures will become effective October 1, 2001." Because SFA stated that they have established the receivables the OIG identified and have implemented procedures to take effect on October 1, 2001, to address the procedural weaknesses, we do not see a need to reopen this recommendation.

**1.3 Determine whether the Department's policies need to be revisited with regard to who should be designated as the Audit follow-up Official and given the responsibility for ensuring corrective actions are actually taken. Update policies as needed based on this determination.**

Response: We do not concur that the Department's policies need to be revisited with regard to who should be designated as the Audit Follow-up Official (AFUO). The CFO, as the AFUO, in compliance with OMB Circular A-50, ensures that "a system of cooperative audit

resolution and follow-up is documented and in place, including follow-up to ensure corrective actions are taken.” For additional comments regarding this issue, please see our remarks in the cover letter, as well as our response to 1.1 above.

**Finding No. 2 -- Action Officials Did Not Certify that All Corrective Actions Were Implemented**

Response: We concur with this finding.

**Recommendations**

**2.1 Adhere to the requirement for the Action Official certification, or modify the applicable Directive and user guide to specify that responsible managers in the program area may also provide certification.**

**2.2 Establish a control to ensure the responsible official's certification is received prior to closing an audit.**

Response: We concur with both of these recommendations. The OCIO is currently working through its contractor, the Seneca Corporation, to make enhancements to our current automated tracking systems that will include the certification process. Until these enhancements are fully implemented, we will continue to require a written Certification Memorandum, signed by the AO, to close the audit report. We will modify the applicable directive and user guide to specify those responsible managers in the program area who may also provide certification. Specific actions we plan to take to address this recommendation will be included in our response to the final report.

**Finding No. 3 -- Program Offices Did Not Have Complete Records of Corrective Actions Taken**

Response: We concur with this finding.

**Recommendation**

**3. Adhere to current requirements and issue additional guidelines on documentation that should be maintained to support corrective actions taken.**

Response: We concur with this recommendation. We will issue additional guidelines to AOs on maintaining appropriate documentation to support completed corrective actions. In developing these guidelines, we will work closely with the OIG and POs to ensure that documentation requirements are reasonable, and are not overly burdensome. We will also explore the feasibility of performing periodic reviews to ensure sufficient record keeping to support actions on corrective actions. Specific actions we plan to take to address this recommendation will be included in our response to the final report.

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